

FEDERAL RESERVE SYSTEM

The International Commercial Bank of China Co., Ltd.
Taipei, Taiwan

Order Approving Establishment of U.S. Branches

The International Commercial Bank of China Co., Ltd. (“Bank”), Taipei, Taiwan, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under sections 5(a) and 7(d) of the IBA¹ to establish branches in Los Angeles and San Jose, California, and New York, New York. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish a branch in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in newspapers of general circulation in New York, New York (*The New York Post*, May 10, 2006), Los Angeles, California (*Los Angeles Daily News*, May 10, 2006), and San Jose, California (*San Jose Mercury News*, May 10, 2006). The time for filing comments has expired, and all comments received have been considered.

Bank, with total assets of \$36 billion, is the eighth largest commercial bank in the Taiwan.² Bank is wholly owned by Mega Financial Holding Company (“Mega”), Taipei, Taiwan. Mega’s largest shareholders are the national government and governmental agencies of Taiwan (controlling

¹ 12 U.S.C. §§ 3103(a), 3105(d).

² Asset data are as of March 31, 2006.

18.3 percent of shares) and Chinatrust Financial Holding Company, Ltd., Taipei, Taiwan (controlling 18 percent of shares).³ Bank provides a variety of banking services to retail and corporate customers directly and through two subsidiary banks and branches in 15 countries.⁴ In the United States, Bank operates a limited federal branch in Los Angeles, California, a full-service state branch in Chicago, Illinois, and a state agency in New York, New York. Bank is a qualifying foreign banking organization under Regulation K.⁵

In addition to Bank, Mega wholly owns Chiao Tung Bank Co., Ltd. (“CTB”), Taiwan’s 14th largest bank. CTB operates a full-service state branch in San Jose, California, and a state agency in New York, New York.

As part of a corporate reorganization of Mega, Bank and CTB will merge, with Bank as survivor. Bank would assume CTB’s San Jose full-service branch and New York agency. In New York, Bank proposes to combine the operations of CTB’s agency with the operations of Bank’s existing New York agency and to upgrade the combined New York agency to a full-service branch. It also proposes to convert its Los Angeles limited branch from a federal to a state license and to upgrade it to a full-service branch. According to Bank, the full-service branches would enable it to better serve the needs of its customers

³ Mega’s remaining shares are widely held, with no shareholder or group of shareholders controlling more than 5 percent of shares.

⁴ Bank’s subsidiary banks are International Commercial Bank of Cathay, Toronto, Canada, and The International Commercial Bank of China Public Co., Ltd., Bangkok, Thailand. In addition to the United States, Bank operates branches in Australia, France, Hong Kong, Japan, Malaysia, the Netherlands, Panama, the Philippines, Singapore, and Vietnam. Bank also maintains representative offices in the United Kingdom and Bahrain.

⁵ 12 CFR 211.23(b).

who do business in the United States. The branches also would coordinate Bank's access to U.S. capital markets.

Under the IBA and Regulation K, in acting on an application by a foreign bank to establish a branch, the Board must consider whether the foreign bank (1) engages directly in the business of banking outside of the United States; (2) has furnished to the Board the information it needs to assess the application adequately; and (3) is subject to comprehensive supervision on a consolidated basis by its home country supervisor.⁶ The Board also considers additional standards set forth in the IBA and Regulation K.⁷

As noted above, Bank engages directly in the business of banking outside the United States. Bank also has provided the Board with information necessary to assess the application through submissions that address the relevant issues. With respect to supervision by home country authorities, the Federal Reserve previously has determined, in connection with applications involving other banks in Taiwan, that those banks were

⁶ 12 U.S.C. § 3105(d)(2); 12 CFR 211.24. In assessing this standard, the Board considers, among other indicia of comprehensive, consolidated supervision, the extent to which the home country supervisors: (i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide; (ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise; (iii) obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank financial reports that are consolidated on a worldwide basis or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis; (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. No single factor is essential, and other elements may inform the Board's determination.

⁷ 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2)-(3).

subject to home country supervision on a consolidated basis.⁸ Bank is supervised by the Financial Supervisory Commission (“FSC”) on substantially the same terms and conditions as those other banks.⁹ Based on all the facts of record, it has been determined that Bank is subject to comprehensive supervision on a consolidated basis by its home country supervisor.¹⁰

The Board has also taken into account the additional standards set forth in section 7 of the IBA and Regulation K.¹¹ The FSC has no objection to Bank’s establishment of the proposed branches.

Taiwan’s risk-based capital standards are consistent with those established by the Basel Capital Accord. Bank’s capital is in excess of the minimum levels that would be required by the Basel Capital Accord and is

⁸ See SinoPac Holdings, 88 Federal Reserve Bulletin 307 (2002); Chinatrust Financial Holding Company, Ltd., 88 Federal Reserve Bulletin 303 (2002); E. Sun Commercial Bank Limited, 86 Federal Reserve Bulletin 238 (2000); Chinatrust Commercial Bank, Ltd., 84 Federal Reserve Bulletin 1121 (1998); Land Bank of Taiwan, 83 Federal Reserve Bulletin 336 (1997); Taiwan Business Bank, 81 Federal Reserve Bulletin 746 (1995); Farmers Bank of China, 81 Federal Reserve Bulletin 620 (1995).

⁹ The FSC, Taiwan’s umbrella supervisory agency for financial institutions, is composed of financial regulators formerly housed in the Ministry of Finance, Central Bank of China, and China Deposit Insurance Corporation. The FSC began operations in July 2004.

¹⁰ As a financial holding company under Taiwanese law, Mega is supervised by the FSC and is subject to prudential restrictions on capital adequacy and transactions with affiliates. The FSC may require the submission of consolidated financial statements, review transactions between the financial holding company and its subsidiaries, and send internal or outside independent auditors to audit and inspect the operations and the financial records of the financial holding company or any of its subsidiaries. The FSC also may take measures to ensure the safety and soundness of the organization.

¹¹ See 12 U.S.C. § 3105(d)(3)-(4); 12 CFR 211.24(c)(2)-(3).

considered equivalent to capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank are consistent with approval, and Bank appears to have the experience and capacity to support the proposed agency. In addition, Bank has established controls and procedures for the proposed offices to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.

Taiwan is a founding member of the Asia Pacific Group on Money Laundering and subscribes to its recommendations on measures to combat money laundering and international terrorism. In accordance with these recommendations, Taiwan has enacted laws and regulations to deter money laundering. Money laundering is a criminal offense in Taiwan, and financial institutions are required to establish internal policies, procedures, and systems for the detection and prevention of money laundering throughout their worldwide operations. Bank has policies and procedures to comply with these laws and regulations that are monitored by governmental entities responsible for anti-money laundering compliance.

With respect to access to information about Bank's operations, the restrictions on disclosure in relevant jurisdictions in which Bank operates have been reviewed and relevant government authorities have been communicated with regarding access to information. Bank and Mega have committed to make available to the Board such information on the operations of Bank and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act, and other applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law or otherwise, Bank and Mega have committed to cooperate with the Board to obtain any necessary consents or waivers that might be

required from third parties for disclosure of such information. In light of these commitments and other facts of record, and subject to the condition described below, it has been determined that Bank and Mega have provided adequate assurances of access to any necessary information that the Board may request.

Establishment of an Interstate Branch. The IBA establishes criteria that must be met before the Board can approve the establishment of a branch outside the foreign bank's home state. Bank's home state is New York. Bank proposes to establish by merger a full-service branch in San Jose, California, CTB's home state. Under section 5(a) of the IBA, as amended by section 104 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal Act"),¹² a foreign bank, with the approval of the Board and the Office of the Comptroller of the Currency or the appropriate state banking supervisor, may establish and operate a branch in any state outside its home state to the extent that a bank with the same home state as the foreign bank could do so under section 44 of the Federal Deposit Insurance Act ("FDI Act"). Section 44 of the FDI Act permits approval of a merger transaction under the Bank Merger Act between banks with different home states, provided that neither state has elected to prohibit interstate merger transactions.¹³ New York and California statutes both permit interstate merger transactions. All other applicable requirements have been met by the proposal.¹⁴

¹² 12 U.S.C. § 3103(a).

¹³ 12 U.S.C. § 1831u.

¹⁴ Section 5(a) of the IBA requires that certain conditions of section 44 of the FDI Act be met in order for the Board to approve an interstate banking transaction. See 12 U.S.C. § 3103(a)(3)(C) (referring to sections 44(b)(1), 44(b)(3), and 44(b)(4) of the FDI Act, 12 U.S.C. §§ 1831u(b)(1), (b)(3), and (b)(4)). The Board has determined that Bank is in compliance with

The Board has determined that all of the other criteria referred to in section 5(a)(3) of the IBA,¹⁵ including the criteria in section 7(d) of the IBA, have been met. In view of all the facts of record, the Board is permitted to approve the establishment of an interstate branch by Bank under section 5(a) of the IBA.

Section 5(a)(7) of the IBA provides that a foreign bank may upgrade an existing limited branch outside its home state to a full-service branch if the limited branch has been in operation since September 28, 1994, and the host state permits the establishment of a full-service branch.¹⁶ As noted above, Bank's home state is New York. Bank's Los Angeles branch was established in 1984, and California law permits foreign banks to operate full-service wholesale branches.¹⁷ Accordingly, the Board has determined that Bank may upgrade the Los Angeles branch to a full-service wholesale branch,

state filing requirements. Community reinvestment considerations are also consistent with approval. Both Bank and CTB were adequately capitalized as of the date the application was filed, and, on consummation of this proposal, Bank would continue to be adequately capitalized and adequately managed. The Board has determined, after consultation with the Secretary of the Treasury, that the financial resources of Bank are equivalent to those required for a domestic bank to receive approval for interstate branching under section 44 of the FDI Act.

¹⁵ The Riegle-Neal Act provides that a bank resulting from an interstate merger may, with Board approval and subject to certain requirements, retain and operate as a branch any office that any bank involved in the merger transaction was operating as a main office or branch immediately before the merger transaction. See 12 U.S.C. § 1831u(d)(1). In this case, all the applicable statutory requirements are met. Therefore, Bank may retain and operate the state-licensed branch outside New York currently being operated by CTB, provided the criteria in section 5(a)(3) of the IBA have been met.

¹⁶ 12 U.S.C. § 3103(a)(7).

¹⁷ Cal. Fin. Code §§ 1701, 1750 (West 2006).

provided that the California Department of Financial Institutions approves the transactions.

Upgrade of the New York Agency to a Full-Service Branch. Bank currently operates an agency in New York. Because New York is Bank's home state, there is no federal restriction that would preclude the upgrading of that office to a full-service branch. Accordingly, the Board has determined that Bank may upgrade the New York agency to a full-service wholesale branch, provided that the New York State Banking Department approves the transactions.

Based on the foregoing and all the facts of record, Bank's application to establish the proposed branches is hereby approved by the Director of the Division of Banking Supervision and Regulation, with the concurrence of the General Counsel, pursuant to authority delegated by the Board. Should any restrictions on access to information on the operations or activities of Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require termination of any of Bank's direct or indirect activities in the United States. Approval of the application also is specifically conditioned on compliance by Bank with the conditions imposed in this order and the commitments made to the Board in connection with this application and with the conditions in this order.¹⁸ The commitments and

¹⁸ The Board's authority to approve the establishment of the proposed branches parallels the continuing authority of California and New York to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of those states to license the proposed offices of Bank in accordance with any terms or conditions that they may impose.

conditions referred to above are conditions imposed in writing by the Board in connection with this decision and may be enforced in proceedings under 12 U.S.C. § 1818 against Bank and its affiliates.

By order, approved pursuant to authority delegated by the Board, effective August 18, 2006.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board